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SIPDIS

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SUBJECT: LOCKHEED MARTIN PROMISES COUNTERTRADE TO THAILAND  
AS PART OF F-16 DEAL

REF: 04 BANGKOK 7550

Classified By: Political Counselor Robert J. Clarke. Reasons 1.4 (a).

Summary.

1. (C) In a March 17 meeting with Defense Minister Gen. Thamarak Isarangura Na Ayutthaya, Lockheed Martin Director for Industrial Cooperation Richard Jannarone made it clear that Lockheed Martin is willing to offer a "100 percent" countertrade deal if the RTG selects F-16 as the fighter aircraft to replace the aging F-5s in its fleet. Lockheed made the offer in response to similar promises made by SAAB to support their pitch to sell Gripen fighters and by Sukhoi to support their efforts to sell SU-30 aircraft to Thailand. Thai law now requires that all procurement of foreign goods by state agencies valued at more than approximately 8 million USD be balanced by countertrade transactions equal to at least 50 percent of the value of the purchased goods. Good news for Lockheed Martin's bid was Thamarak's expressed concern that MOD wants a fighter that has a proven logistics support chain. Nonetheless, post is concerned over continued indications from other Thai contacts that, irrespective of the operational performance advantage F-16 holds over Gripen and SU-30, the RTG will make its final decision based solely on the countertrade deal cobbled together. Swedish and Russian sales reps are allegedly offering offsets and countertrade at more than 100 percent. Thai Government officials interested in F-16 winning the fighter contract have suggested to us that senior U.S. officials weighing in in support of Lockheed Martin would be useful to counter recent statements of support the King of Sweden and President Putin have made in support of their country's planes. END SUMMARY.

LOCKHEED WILL OFFER 100 PERCENT COUNTERTRADE AND/OR OFFSETS

2. (SBU) Although the Royal Thai Government has not officially requested RFPs nor clearly outlined mission requirements, for a year RTG officials have expressed their intention to purchase 18 multi-role fighters to replace aging F-5s in the RTAF fleet. Although Thailand now has 59 F-16s in its inventory, press stories for the past several months have reported on Thai pilots traveling to Sweden to examine SAAB FAS-39 Gripens or to Russia to look at SU-30's. Embassy officials, including the Ambassador in a meeting with Prime Minister Thaksin, have emphasized that F-16 is a more capable aircraft, at a better price, easier to maintain, and more likely to help Thailand's future efforts to procure the Joint Strike Fighter when it becomes available for export in years to come. Thai officials have responded by pointing out that Thai law now requires any large-scale purchase of foreign goods by the RTG to include a countertrade deal equal to at least half the price of the purchased goods. Press reports in the lead up to last month's national elections noted the RTG's efforts to craft a deal with a fighter manufacturer that would help Thailand sell approximately 80,000 tons of frozen chickens stockpiled in Thai poultry processing company freezers in the wake of the avian flu crisis. Embassy contacts said that until Lockheed Martin offered a proposal to sell F-16s that included countertrade, the RTG could not seriously consider its offer. Contacts also suggested that an offer that included an agreement to buy Thai chicken would be especially welcome.

3. (SBU) In response to this information, on March 17, Lockheed Martin's senior countertrade expert, Richard Jannarone, met with Thai Defense Minister Gen Thamarak to clearly spell out Lockheed Martin's willingness to offer a comprehensive package of countertrade and/or industrial offsets. Jannarone explained that Lockheed Martin has more experience in countertrade than any other defense manufacturer, having completed programs in 27 countries valued at over 22 billion USD. Lockheed Martin is willing to offer a "100 percent countertrade package" for a long list of Thai goods, including agricultural products, and/or an industrial cooperation plan that could upgrade existing Thai maintenance facilities for C-130 cargo planes, F-16 engines or F-16 radars, among others. Jannarone emphasized his company's willingness to put together a package that would

allow Thailand to purchase the most capable plane under consideration in a manner that meets the concerns of the Prime Minister's office.

THAMARAK SEEMS RECEPTIVE

14. (SBU) Thamarak explained that he had only reassumed the role of Defense Minister a week earlier but noted his defense procurement plan would have each of the Thai services clearly outline their new equipment needs and request list with a focus on a reliable logistics train after purchase, training follow-up and technology transfer. While quick to emphasize that other agencies within the RTG would have to vet any proposal on fiscal and other policy grounds, Thamarak twice pointed out F-16's comparative advantage from a logistics standpoint. He noted that since Thailand already owns F-16's, it would be easier to train mechanics and perform maintenance on new model F-16s. He indicated that he would forward Lockheed Martin's proposal to include countertrade to the other agencies concerned.

COMMENT: POLITICAL PRESSURE FROM WASHINGTON SOUGHT

15. (C) While we were encouraged by Thamarak's favorable opinion of F-16, our collective sense is that Lockheed Martin is playing catch-up in the fighter competition. The Swedes and the Russians have worked aggressively and have made it clear for several months that they are willing to explore buying Thai chicken as part of a fighter deal. If the decision to purchase were left up to the military, F-16 would win easily. It is more capable and easier for the RTAF to maintain than the other aircraft. However, officials in the Commerce Ministry and PM's office seem convinced that all three fighters are fungible and that Thailand should therefore focus on the best business deal. As of March 18, we were unable to arrange a meeting for Lockheed Martin with the new Commerce Minister, Thanong Bidaya due to his only having been appointed on March 11. We intend to follow up with Thanong quickly because his Ministry seems to have the most influence over the PM's perception of the countertrade issue. Several RTAF contacts have mentioned to JUSMAGTHAI and Lockheed Martin officials that both Sweden and Russia have applied high-level political pressure in support of their planes. Both the King of Sweden and President Putin have raised the fighter purchase with PM Thaksin. Fans of F-16 within the RTAF have suggested that phone calls from senior U.S. officials to key Thai decision makers could go a long way towards helping Lockheed Martin win the fighter competition.

BOYCE